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The Case for U.S. Real Estate Credit: An Opportunity for Endowments and Foundations

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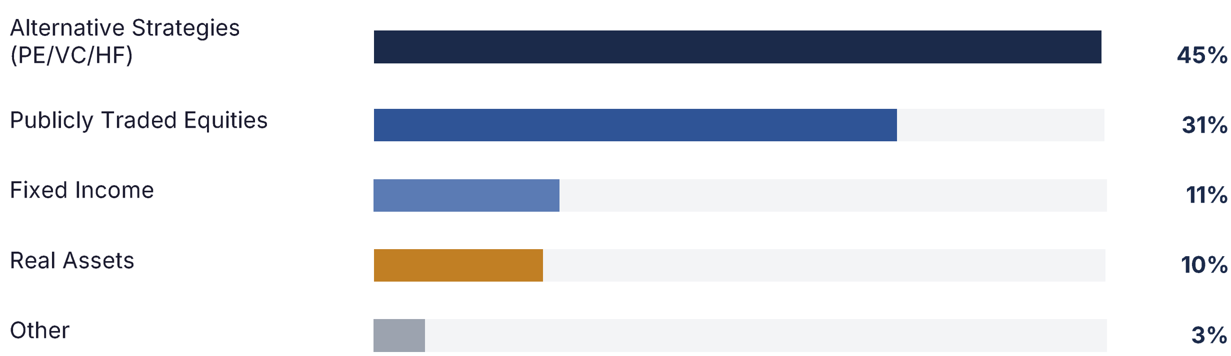
INTRODUCTION

The U.S. real estate debt market, at approximately $19 trillion in outstanding obligations, is one of the largest credit markets in the world, yet, for most U.S. endowments and foundations, it remains an underweight component of their credit allocation. According to the 2025 NACUBO-Commonfund Study of Endowments, alternative strategies represent approximately 45% of average endowment allocations on a dollar-weighted basis, dominated by private equity, venture capital, and hedge funds. While fixed income sits at approximately 11% and real assets at approximately 10%.[1] Real estate credit, with its distinct income profile, secured position, and low correlation to public markets, remains meaningfully under-allocated across most E&F portfolios.

AVERAGE ENDOWMENT ALLOCATION, DOLLAR-WEIGHTED



Source: 2025 NACUBO-Commonfund Study of Endowments, Dollar-Weighted Asset Allocations for FY25, all participating institutions. Categories sum to 100%. Real estate credit is not broken out separately in the study — it sits within the fixed income and real assets exposures.

For institutions with long time horizons, meaningful tax exemptions, and annual spending requirements typically in the 4-5% range, the structural alignment of real estate credit is hard to ignore. Tangible asset collateral, current income distributions, and excess spread over comparable corporate alternatives combine to create a unique and attractive investment strategy. For endowments and foundations, this proposition is further strengthened by their tax-exempt status, which can allow a greater share of gross yield to accrue to the portfolio. In the given environment, unlevered real estate secured debt can produce mid-to-high single digit returns and with leverage via securitization financing can produce double digit return profiles.

This piece introduces two primary segments of U.S. real estate credit, residential and commercial, and makes the case for why E&F investors with existing private credit allocations should take a closer look. For those able to source and originate loans directly, real estate credit, backed by hard asset collateral, has offered historically competitive risk-adjusted returns[2] relative to middle-market corporate lending, with a return profile that is structurally distinct from anything in a corporate credit portfolio.

RESIDENTIAL AND COMMERCIAL REAL ESTATE MARKETS

Residential and commercial real estate debt form the two main pillars of the U.S. real estate credit market but differ meaningfully in borrower base and collateral type. Understanding these distinctions is the first step in building a deliberate real estate credit allocation.

U.S. Real Estate Debt Market: ~$19 Trillion Outstanding

~$14 Trillion	~$5 Trillion
RESIDENTIAL MORTGAGE DEBT OUTSTANDING	COMMERCIAL MORTGAGE DEBT OUTSTANDING

Sources: Freddie Mac (residential mortgage debt); Mortgage Bankers Association, Q4 2025 Commercial/Multifamily Mortgage Debt Outstanding (commercial debt).

The U.S. residential mortgage market, at approximately $14 trillion in outstanding debt, is the largest fixed income market in the world. While the agency system (Fannie Mae, Freddie Mac, and Ginnie Mae) anchors the conforming market, a large and growing non-agency segment serves creditworthy borrowers who fall outside agency guidelines: self-employed individuals, residential property investors, and high-balance borrowers whose credit profiles are strong, but whose income documentation or property use requires a different underwriting framework. Within this non-agency universe, strategies such as Non-QM first lien mortgages and prime second liens, in our view, have generated attractive current income backed by real property collateral, with loss rates that have remained low through multiple credit cycles.

The U.S. commercial real estate debt market totals approximately $5 trillion in outstanding obligations, financing income-producing properties across categories such as multifamily, industrial, hotel, office, retail and other asset types. CRE credit operates across a capital stack that includes senior bridge loans, mezzanine debt, preferred equity, and commercial mortgage-backed securities, each with distinct risk, return, and structural characteristics. Senior bridge lending on transitional multifamily and industrial properties has been among the most attractive strategies in recent years in our view, offering floating-rate income backed by first lien positions on well-located assets, underwritten to conservative loan-to-value ratios and driven by property-level value creation rather than financial leverage or macroeconomic positioning. The low historical loss record on multifamily and industrial loans reinforces the durability of returns for managers who have the discipline to underwrite diligently and focus on the right collateral.

WHY THE OPPORTUNITY IS COMPELLING TODAY

Three structural dynamics converge to make this a particularly attractive entry point for private capital in both residential and commercial real estate credit.

Bank Retrenchment
Regional and mid-size banks are managing down exposure, widening the financing gap.

Structural Housing Supply Deficit
A ~3.7 million-unit shortage keeps a durable floor under residential collateral.

CRE Recapitalization Wave
Substantial recent pending CRE maturities.

Bank retrenchment. Regional and mid-size banks, historically the primary source of financing across both sectors, have been managing down their exposure rather than growing it, widening a persistent financing gap that private capital is well-positioned to fill on attractive terms. In residential credit, banks are active but are more oriented toward conforming and agency-eligible origination. Similarly, in CRE credit more focus is on longer-term, stabilized assets and other product types where their origination infrastructure is already built.

A structural housing supply deficit. A decade of underbuilding following the Global Financial Crisis left the U.S. housing market short of supply in a way that has proven remarkably difficult to close. A recent estimate from Freddie Mac puts the national housing shortage at approximately 3.7 million units,[3] and despite meaningful new construction activity, rising household formation has kept the gap from narrowing. That persistent undersupply supports home prices across geographies and income levels, providing a durable price floor beneath the collateral backing residential credit strategies and sustaining demand for non-agency financing among a large and creditworthy borrower population. This same backdrop supports the multifamily thesis as households search for quality housing supply.

A commercial real estate recapitalization wave. According to the MBA's 2025 Commercial Real Estate Survey of Loan Maturity Volumes, $875 billion of the $5.0 trillion in outstanding commercial mortgages is scheduled to mature in 2026, with another $652 billion anticipated in 2027.[4] Borrowers need capital, traditional lenders remain constrained, and experienced managers with direct origination platforms and the operational speed to execute are finding attractive, repeatable opportunities to lend against strong credits at spreads that reflect the structural lending supply gap, not any deterioration in underlying asset quality.

RETURN EXPECTATIONS

The return profile across each sector is compelling. In residential credit, unlevered returns on whole loan strategies such as Non-QM first liens target 6-7% and 7-9% for prime second liens. Levered returns on these assets, achieved through warehouse financing and securitization, target 12-20% for managers with direct origination platforms and efficient capital markets execution. In commercial real estate, senior bridge loans backed by multifamily and industrial collateral target unlevered returns in the 6-8% range, with targeted levered returns in the 10-15% range depending on the financing structure employed between warehouse financing or CRE CLO securitization. Across both sectors, returns are primarily income-driven, supported by floating or fixed-rate coupons on well-underwritten collateral, a profile we believe is particularly well-suited to endowments and foundations seeking current distributions to meet annual spending requirements.

CORRELATION TO PUBLIC MARKET BENCHMARKS

Taken together, these dynamics produce a return profile and diversification benefit that is difficult to source elsewhere in a private credit portfolio. As the table below illustrates, both SGCP's residential and CRE credit strategies have demonstrated low correlation to major public market benchmarks.[5]

Benchmark	SGCP Residential Fund	SGCP CRE Fund
Bloomberg US Agg	-0.09	0.08
MVIS US Mtg REITs	-0.15	0.27
iBoxx HY Corp	-0.39	0.21
S&P 500	-0.17	0.09

Source: Bloomberg. SGCP fund and benchmark data using monthly net returns, July 2022 – July 2026.

A PLATFORM BUILT FOR THIS MARKET

In our view, the opportunity in residential and commercial real estate credit is as attractive as it has been in years. Bank retrenchment, structural housing undersupply, and a historic volume of CRE loan maturities help present attractive lending opportunities to high-quality credit borrowers. For endowments and foundations, real estate credit offers a combination that is difficult to replicate elsewhere: current income backed by hard asset collateral, a gross yield advantage that accrues in full to tax-exempt investors, and a correlation profile that provides attractive diversification from the public markets and corporate credit strategies that are prevalent in most E&F portfolios.

At Shelter Growth Capital Partners, we have spent over a decade building an investment and asset management platform to capitalize on the opportunities in these sectors. We have the origination relationships, underwriting infrastructure, financing facilities, and asset management capabilities required to access these markets at scale. For our capital partners, that means proven, turnkey exposure to both residential and commercial real estate credit without the operational complexity or staffing requirements that direct market access would otherwise demand.

For those looking to learn more about these real estate credit sectors or how best to access them, we welcome the conversation.

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FOOTNOTES

1. NACUBO-Commonfund, "2025 Study of Endowments," February 2026.
2. For CRE debt, Invesco Real Estate using the Giliberto-Levy Commercial Mortgage Performance Index reports a Sharpe ratio of 1.02 for private CRE debt vs. 0.93 for U.S. bonds over the 20-year period ending Q2 2021. For residential credit, PIMCO's asset-based finance research finds attractive risk-adjusted returns for ABF strategies relative to corporate direct lending and public credit benchmarks over the 2000–2024 period. Sources: Invesco Real Estate; PIMCO.
3. Freddie Mac, Economic and Housing Research, Housing Supply Deficit Estimate as of Q3 2024, published November 2024.
4. Mortgage Bankers Association, 2025 Commercial Real Estate Survey of Loan Maturity Volumes, 2026.
5. Bloomberg. SGCP fund and benchmark data using monthly net returns, July 2022 – July 2026.